

Message Text

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FM AMEMBASSY BANGKOK

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C O N F I D E N T I A L BANGKOK 1291

E.O. 11652: GDS

TAGS: ENRG, TH

SUBJECT: FORTHCOMING UNION OIL-RTG NEGOTIATIONS

REF: BANGKOK 1032

1. AMBASSADOR DISCUSSED STATUS OF NATURAL GAS NEGOTIATIONS WITH MINISTER OF INDUSTRY KASEM CHATIKAWANIT JANUARY 12. KASEM DECLARED THAT FRANKLY HE FAVORED U.S. COMPANIES GETTING THE PIPE-LINE CONSTRUCTION CONTRACTS. THERE WERE RTG OFFICIALS WHO BELIEVED INTERNATIONAL TENDERS WERE ESSENTIAL TO GET THE BEST PRICE, BUT IN HIS VIEW, WHILE A U.S. COMPANY MIGHT POSSIBLY CHARGE MORE, IN THE FINAL ANALYSIS THE THAI KNOW THE JOB WOULD BE DONE PROPERLY IF A U.S. COMPANY GOT THE BUSINESS. THE PROBLEM WAS THAT ANUMBER OF LARGE AND HIGHLY COMPETENT U.S. FIRMS WERE AFTER THE WORK AND TO CHOOSE BETWEEN THEM WOULD BE DIFFICULT, BUT THE THAI PREFERENCE WAS MOST DEFINITELY AMERICAN.

2. KASEM EMPHASIZED THE BOTTLENECK WAS THE NEGOTIATION WITH UNION OIL FOR THE PRICE OF GAS AT THE WELLHEAD. WHILE PRELIMINARY STUDIES HAD GONE AHEAD, DECISIONS ON MANAGEMENT CONTRACTS, FINANCING, AND CONSTRUCTION ARRANGEMENTS ALL
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HAD TO BE HELD IN ABEYANCE UNTIL THOSE CRUCIAL NEGOTIATIONS HAD BEEN SUCCESSFULLY CONCLUDED. THE UNION OIL NEGOTIATORS WOULD BE RETURNING TO BANGKOK LATER IN JANUARY, AND HE WAS CONFIDENT AN AGREEMENT WOULD BE REACHED "WITHIN A MONTH OR TWO." HE PERSONALLY WAS ASSUMING RESPONSIBILITY AS CHIEF THAI NEGOTIATOR. BECAUSE UNION HAD BEEN UNHAPPY WITH BRITISH GAS CORPORATION PRICE COMPUTATIONS, THE RTG

HAD SECURED ANOTHER OPINION FROM U.S. SOURCES (DEGOLYER AND MACNAUGHTON) AND THIS INFORMATION WAS NOW AVAILABLE TO HIM. THE BASIC PROBLEM HAS BEEN ONE OF INFLEXIBILITY. UNION WANTED TO FACTOR IN EXPLORATION COSTS ON THEIR WORLDWIDE OPERATIONS, NOT WHAT IT HAD ACTUALLY COST THEM IN THAILAND. UNION AND THE RTG ALSO DISAGREED ON THE NUMBER OF NEW WELLS WHICH HAD TO BE DRILLED TO PROVE OUT THE FIELD. NEVERTHELESS, HE BELIEVED REASONABLE MEN COULD REACH A FAIR AND EQUITABLE AGREEMENT BASED ON A MORE FLEXIBLE FORMULA TO COVER ACTUAL COSTS. THE RTG WAS FULLY PREPARED TO AGREE TO A JUST REMUNERATION FOR DEVELOPMENT COSTS. FURTHER, MANY THAI BELIEVED UNION SHOULD NOT COMPUTE A PRICE ON EXPERIENCE ELSEWHERE IN THE WORLD BECAUSE, AFTER ALL, IN THAILAND THEY HAD A "CAPTIVE MARKET, "I.E., AN ASSURED MARKET FOR ALL PRODUCTION DIRECTLY TO THE THAI ELECTRICAL AUTHORITY (EGAT). KASEM CONCLUDED BY SAYING IT WAS UNFORTUNATE THE PRICE UNION HAD QUOTED FOR GAS EQUATED ALMOST EXACTLY WITH THE PRICE OF MIDDLE EAST CRUDE OIL DELIVERED IN BANGKOK. THIS LED MANY THAI TO THE CONCLUSION THAT UNION HAD NOT MADE A SERIOUS COMPUTATION BUT INSTEAD WAS MERELY CHARGING THE TOP WORLD ENERGY PRICE.

3. AMBASSADOR'S COMMENT: I AM GREATLY ENCOURAGED BY KASEM'S REMARKS. HE CLEARLY PREFERS AMERICAN COMPANIES FOR THIS LARGE PROJECT. DEVELOPMENT OF THE NATUAL GAS AND THE INFRASTRUCTURE COULD RESULT IN MULTIMILLION
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DOLLAR CONTRACTS FOR AMERICAN BANGKOKS AND COMPANIES. WITH SO MUCH HINGING ON AMICABLE AND EXPEDITIOUS CONCLUSIONS OF THE UNION-RTG NEGOTIATIONS I STRONGLY URGE THE DEPARTMENT, AT AN APPROPRIATELY HIGH LEVEL, TO DISCUSS THE FORTHCOMING NEGOTIATIONS WITH TOP UNION MANAGEMENT AND TO IMPRESS UPON THEM THE ESSENTIALITY OF SENDING OUT A TOP-FLIGH NEGOTIATOR. IT WILL BE VITAL TO ESTABLISH A CLOSE PERSONAL RAPPORT WITH THE HIGHLY INTELLIGENT AND WELL-DISPOSED MINISTER OF INDUSTRY, WHO IS ANXIOUS TO REACH AN AGREEMENT SOON BASED ON A FAIR DEAL FOR BOTH PARTIES.
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